

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Lexington Township	County Sanilac
Audit Date 6/30/05	Opinion Date 10/11/05	Date Accountant Report Submitted to Sate: 11/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

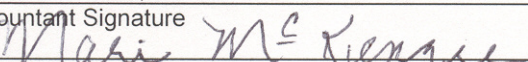
- 1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
- 2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 3149 Main Street; PO Box 218	City Marlette	State MI	ZIP 48453
Accountant Signature 			

**Lexington Township
Sanilac County, Michigan
Annual Financial Statements
and
Auditor's Report
June 30, 2005**

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Lexington Township
List of Elected and Appointed Officials
June 30, 2005

TOWNSHIP BOARD

CHAD PARTAKA

SUPERVISOR

CAROLYN F. MISIAK

CLERK

DAVIANNA MCALLISTER

TREASURER

WILLIAM WATSON

TRUSTEE

JOHN O'HAIR

TRUSTEE



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Marlette, MI 48453
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Independent Auditors' Report

To the Township Board
Lexington Township
Sanilac County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lexington Township as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lexington Township as of June 30, 2005 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lexington Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Yeo & Yeo, P.C.

Marlette, Michigan
October 11, 2005

Lexington Township
Statement of Net Assets
June 30, 2005

Assets	
Cash and cash equivalents	\$ 92,812
Investments	
Restricted for bridge repair and replacement	59,989
Unrestricted	124,429
Accounts receivable	
Special assessments	134,428
Other	56,768
Due from other governmental units	35,111
Capital assets (net)	<u>55,567</u>
Total assets	559,104
Liabilities	
Accounts payable	16,080
Accrued interest	1,986
Noncurrent liabilities	
Due within one year	15,730
Due in more than one year	<u>274,580</u>
Total liabilities	<u>308,376</u>
Net Assets	
Invested in capital assets, net of related debt	21,167
Restricted for debt service	20,648
Unrestricted	<u>208,913</u>
Total net assets	<u><u>\$ 250,728</u></u>

See Accompanying Notes to Financial Statements

Lexington Township
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Changes for Services	Operating Grants and Contributions	
Primary government				
Governmental activities				
General government	\$ 321,002	\$ 8,587	\$ -	\$ (312,415)
Public safety	69,445	17,430	-	(52,015)
Highways and streets	45,849	9,814	-	(36,035)
Other	7,002	-	-	(7,002)
Liquor law enforcement	-	-	882	882
Debt service	-	16,393	-	16,393
Capital outlay (noncapitalized)	4,401	-	-	(4,401)
Interest on long-term debt	14,482	-	-	(14,482)
Depreciation - unallocated	3,807	-	-	(3,807)
Total governmental activities	<u>\$ 465,988</u>	<u>\$ 52,224</u>	<u>\$ 882</u>	<u>(412,882)</u>
General revenues				
Property taxes				135,397
State shared revenue				171,747
Unrestricted investment earnings				1,987
Franchise fees				4,098
Miscellaneous				<u>1,359</u>
Total general revenues and transfers				<u>314,588</u>
Change in net assets				(98,294)
Net assets - beginning				<u>349,022</u>
Net assets - ending				<u>\$ 250,728</u>

See Accompanying Notes to Financial Statements

Lexington Township
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Debt Service Fund	Nonmajor Fund	Total
Assets				
Cash	\$ 92,788	\$ -	\$ 24	\$ 92,812
Investments	59,989	124,429	-	184,418
Accounts receivable				
Special assessments	48,732	85,696	-	134,428
Other	5,780	50,988	-	56,768
Due from other governmental units	29,516	5,595	-	35,111
Due from other funds	836	9,850	-	10,686
	<u>237,641</u>	<u>276,558</u>	<u>24</u>	<u>514,223</u>
Total assets	\$ 237,641	\$ 276,558	\$ 24	\$ 514,223
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 16,080	\$ -	\$ -	\$ 16,080
Due to other funds	9,850	836	-	10,686
Deferred revenue	48,732	136,684	-	185,416
	<u>74,662</u>	<u>137,520</u>	<u>-</u>	<u>212,182</u>
Total liabilities	74,662	137,520	-	212,182
Fund Balance				
Reserved for debt service	-	139,038	-	139,038
Board designated	55,073	-	-	55,073
Unreserved	107,906	-	24	107,930
	<u>162,979</u>	<u>139,038</u>	<u>24</u>	<u>302,041</u>
Total fund balance	162,979	139,038	24	302,041
Total liabilities and fund balance	\$ 237,641	\$ 276,558	\$ 24	\$ 514,223

See Accompanying Notes to Financial Statements

Lexington Township
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
June 30, 2005

Total fund balances for governmental funds \$ 302,041

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

These assets consist of:

Capital assets at cost	117,815	
Accumulated depreciation	<u>(62,248)</u>	55,567

Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Deferred revenue is not reported in the statement of net assets since this revenue was earned.

Balances as of June 30, 2005 are as follows:

Capital lease payable	(34,400)	
Accrued interest	(1,986)	
Bonds payable	(255,910)	
Deferred revenue	<u>185,416</u>	<u>(106,880)</u>

Net assets of governmental activities \$ 250,728

Lexington Township
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General Fund	Debt Service Fund	Nonmajor Fund	Total
Revenues				
Taxes and penalties	\$ 135,397	\$ -	\$ -	\$ 135,397
State grants	171,747	-	880	172,627
Charges for services	40,814	3,892	-	44,706
Interest	1,987	10,511	2	12,500
Other revenue	8,920	11,153	-	20,073
	<u>358,865</u>	<u>25,556</u>	<u>882</u>	<u>385,303</u>
Total revenues				
Expenditures				
General government	321,002	-	-	321,002
Public safety	69,445	-	-	69,445
Highways and streets	45,849	-	-	45,849
Other	10,238	-	-	10,238
Capital outlay	4,401	-	-	4,401
Debt service	-	27,084	-	27,084
	<u>450,935</u>	<u>27,084</u>	<u>-</u>	<u>478,019</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>(92,070)</u>	<u>(1,528)</u>	<u>882</u>	<u>(92,716)</u>
Other financing sources (uses)				
Transfers in	880	-	-	880
Transfers out	-	-	(880)	(880)
	<u>880</u>	<u>-</u>	<u>(880)</u>	<u>-</u>
Total other financing sources and uses				
Net change in fund balance	(91,190)	(1,528)	2	(92,716)
Fund balance - beginning	<u>254,169</u>	<u>140,566</u>	<u>22</u>	<u>394,757</u>
Fund balance - ending	<u>\$ 162,979</u>	<u>\$ 139,038</u>	<u>\$ 24</u>	<u>\$ 302,041</u>

See Accompanying Notes to Financial Statements

Lexington Township
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2005

	<u>Primary Government</u>
Net change in fund balances - total governmental funds	\$ (92,716)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Depreciation	(3,807)
<p>Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>	
Repayments of long-term debt	15,730
Change in deferred revenue	(17,609)
<p>Some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>	
Change in accrued interest	<u>108</u>
Change in net assets of government activities	<u><u>\$ (98,294)</u></u>

See Accompanying Notes to Financial Statements

Lexington Township
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2005

Assets	
Cash	\$ <u>330</u>
Liabilities	
Due to other governmental units	\$ <u>330</u>

Lexington Township
Notes to Financial Statements
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lexington Township became a Township in 1876 and is located in Sanilac County. The Township is operated under a Township Board consisting of five (5) members. The Township provides various services to approximately 3,000 residents.

The accounting policies of the Lexington Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the financial activities of the overall government. For the most part, the effect of interfund activities has been removed from these statements. All of the Township's activities are classified as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

The fund financial statements provide information about the Township's funds. The Township only has governmental funds. The emphasis of fund financial statements is on major governmental funds with all remaining governmental funds aggregated and reported as nonmajor funds.

Reporting entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Township is the primary government, which has oversight responsibility and control over all activities. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Township and does not include any other component within its basic financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of

Lexington Township

Notes to Financial Statements

June 30, 2005

the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The Township reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Additionally, the Township reports the following:

- The Liquor Fund is used to account for revenues derived from specific sources which are required by law or regulation to be accounted for in a separate fund.
- The Trust and Agency Fund is used to account for property tax and other deposits collected on behalf of other units and individuals.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Property tax revenue

Lexington Township's property tax is assessed as of December 31 and the related taxes become a lien on December of the following year. These taxes are due on February 14 with the final collection date of February 14, before they are added to the County tax rolls.

These amounts are recognized in the respective General, Special Revenue and Debt Service Funds financial statements as tax revenue.

Assets, liabilities and net assets or equity

Cash and investments – The Township has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with a maturity of three (3) months or less when acquired. Investments are stated at fair value (quoted market price or the best available estimate).

Receivables and payable – In general, outstanding balances between funds are reported as "due to/from other fund." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-

Lexington Township
Notes to Financial Statements
June 30, 2005

type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives.

Buildings	40 to 60 years
Building improvements	15 to 30 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2005, the Township had the following investment:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
CADRE Liquid Asset Fund Money Market Series	6 Mos. Avg.	<u>\$ 184,418</u>

Interest rate risk – The Township does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorizes the Township's to make deposits into accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the Township is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed or authorized investment vehicles. The Township has no investment policy that would further limit its investments choices. As of June 30, 2005, the District's investment in the CADRE Liquid Asset Fund was rated AAA by Standard and Poor's.

Concentrations of credit risk – The Township has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of June 30, 2005, the entire bank balance of \$122,800 was covered by federal depository insurance.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will

Lexington Township
Notes to Financial Statements
June 30, 2005

not be able to recover the value of its investments or collateral securities that are held by an outside party, not insured.

NOTE 3 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds, and the fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Accounts	5,780	50,988	56,768
Special assessments	48,732	85,696	134,428
Intergovernmental	<u>29,516</u>	<u>5,595</u>	<u>35,111</u>
Total receivables	<u>\$ 84,028</u>	<u>\$ 142,279</u>	<u>\$ 226,307</u>

The allowance for all receivables at year end is zero, because all are expected to be collected.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Special assessments not yet due	134,428
Connection fees	<u>50,988</u>
Total	<u>\$ 185,416</u>

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated				
Buildings	\$ 87,977	\$ -	\$ -	\$ 87,977
Improvements other than buildings	4,420	-	-	4,420
Computers and equipment	<u>25,418</u>	<u>-</u>	<u>-</u>	<u>25,418</u>
Capital assets being depreciated	<u>117,815</u>	<u>-</u>	<u>-</u>	<u>117,815</u>
Less accumulated depreciation for				
Buildings	36,530	1,759	-	38,289
Improvements other than buildings	1,105	221	-	1,326
Computers and equipment	<u>20,806</u>	<u>1,827</u>	<u>-</u>	<u>22,633</u>
Accumulated depreciation	<u>58,441</u>	<u>3,807</u>	<u>-</u>	<u>62,248</u>
Governmental activities capital assets, net	<u>\$ 59,374</u>	<u>\$ (3,807)</u>	<u>\$ -</u>	<u>\$ 55,567</u>

Depreciation expense for the fiscal year ended June 30, 2005 amounted to \$3,807. The Township determined that it was impractical to allocate depreciation to the various activities as the assets serve multiple functions.

Lexington Township
Notes to Financial Statements
June 30, 2005

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 836	To account for expense paid by General Fund on behalf of Debt Service.
Debt Service	General Fund	9,850	To account for revenue received by General Fund and due to Debt Service.
		<u>\$ 10,686</u>	

Interfund transfers

	<u>Transfers (Out)</u> <u>Liquor Fund</u>	<u>Purpose</u>
Transfers In General Fund	\$ <u>880</u>	Liquor Law Enforcement

NOTE 6 - LONG-TERM DEBT

The Township issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time

a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the Township) are received.

Long-term obligation activity is summarized as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2005</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable - water general obligation - 4.05% - due 5/1/18	\$ 270,040	\$ -	\$ 14,130	\$ 255,910	\$ 14,130
Long-term lease payable - 5% - due 6/1/20	<u>36,000</u>	<u>-</u>	<u>1,600</u>	<u>34,400</u>	<u>1,600</u>
	<u>\$ 306,040</u>	<u>\$ -</u>	<u>\$ 15,730</u>	<u>\$ 290,310</u>	<u>\$ 15,730</u>

The general obligation bonds were established during the year ended June 30, 1999 when the Township entered into an agreement with Worth Township to set up and fund a utilities authority to provide water service to residents of the Townships. The Authority was set up and funded through bonds sold by the County and guaranteed by the townships. Lexington Township has a 31.4% interest in the authority and therefore has guaranteed that amount of the bonded debt. The transactions are reflected in the Debt Service Fund.

The Township established a special assessment district and a water connection district. Residents in these districts pay a \$4,900 fee that may be amortized over twenty (20) years. The interest rate is 5.9%.

Lexington Township
Notes to Financial Statements
June 30, 2005

The following is a schedule, by years, of future principal and interest payments on the outstanding bond issue.

Year Ended June 30,	Governmental Activities		Total
	Principal	Interest	
2006	\$ 14,130	\$ 12,231	\$ 26,361
2007	15,700	11,602	27,302
2008	15,700	10,896	26,596
2009	17,270	10,190	27,460
2010	18,840	9,404	28,244
2011-2015	103,620	33,284	136,904
2016-2018	70,650	7,126	77,776
Total	<u>\$ 255,910</u>	<u>\$ 94,733</u>	<u>\$ 350,643</u>

The Village of Lexington Building Authority was created in 1979 to facilitate the financing, construction and operation of a municipal building in the Village for the use of both the Village and Township of Lexington. General obligation bonds in the amount of \$285,000 with interest at five percent (5%) per annum were issued under the provision of Act No. 31, Public Acts of Michigan, 1948 as amended. Financing of the Authority, to include debt retirement and operational expenses, will consist of the Village contributing eighty percent (80%) and the Township twenty percent (20%). Upon the retirement of the construction bonds which financed the facility, or at the time title is transferred to the Village, the Village will convey a tenancy in common to the Township reflecting a twenty percent (20%) interest to the Township.

The following is a schedule, by years, of future minimum lease payments the Township is required to pay to retire twenty percent (20%) of the bond issue.

Year Ended June 30,	Principal	Interest	Total
2006	\$ 1,600	\$ 1,720	\$ 3,320
2007	1,600	1,640	3,240
2008	1,800	1,560	3,360
2009	1,800	1,470	3,270
2010	2,000	1,380	3,380
2011-2015	11,400	5,310	16,710
2016-2020	14,200	2,200	16,400
Total	<u>\$ 34,400</u>	<u>\$ 15,280</u>	<u>\$ 49,680</u>

The transactions of the Building Authority are subject to a separate audit and are not included in this report.

Following is a summary of financial data pertaining to the Village of Lexington Building Authority as of and for the year ended June 30, 2005:

	Government-wide
Assets	\$ 231,648
Liabilities	<u>172,348</u>
Net assets	<u>\$ 59,300</u>
Revenues and transfers	\$ 45,875
Expenditures and transfers	<u>72,809</u>
Decreases in net assets	<u>\$ (26,934)</u>

NOTE 7 - PENSION PLAN

The Township of Lexington contributes to the basic Michigan Township Association Pension Plan which is a defined contribution multi-employer

Lexington Township
Notes to Financial Statements
June 30, 2005

pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions and forfeitures of other participant's benefits that may be allocated to such participant's account.

Contributions made by the Township are 100% vested after twenty (20) months of service. The Township is required to contribute ten percent (10%) of an eligible employee's wages paid. An employee is eligible if he or she is over eighteen (18) years old. Employees are eligible for retirement benefits at age sixty-five (65) and may elect early retirement at age fifty-five (55).

The Township's current year covered payroll and its total current year payroll for all employees amounted to \$78,042 and \$121,904, respectively.

During the year the Township's required and actual contributions amounted to \$8,177. This amount includes administration fees.

NOTE 8 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The Township is a member of the Michigan Municipal Liability and Property Pool. This pool provides for substantially all of the insurance needs of the Township, including property, general liability and comprehensive crime coverage. Under most circumstances, the Township maximum loss per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Deductible Per Occurrence</u>
General Liability	\$ -
Property coverage	250

The Township has purchased commercial insurance for all workers' compensation claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

NOTE 9 - CONTINGENCIES

In the normal course of activities, the Township is a party to various legal actions. After taking into consideration legal Counsel's evaluation of pending actions, the Township is of the opinion that the outcome thereof will not have a material effect on the financial statements

NOTE 10 - DESIGNATED FUND BALANCE

The Township Board has designated \$55,073 of fund balance for bridge repairs and replacements.

Lexington Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes and penalties	\$ 128,414	\$ 128,414	135,397	\$ 6,983
State grants	180,143	180,143	171,747	(8,396)
Charges for services	33,576	33,576	40,814	7,238
Interest	2,000	2,000	1,987	(13)
Other revenue	12,240	12,240	8,920	(3,320)
Total revenues	<u>356,373</u>	<u>356,373</u>	<u>358,865</u>	<u>2,492</u>
Expenditures				
Current				
General government	336,579	336,579	321,002	(15,577)
Public safety	83,500	83,500	69,445	(14,055)
Highways and streets	83,916	83,916	45,849	(38,067)
Other	10,237	10,237	10,238	1
Capital outlay	<u>6,000</u>	<u>6,000</u>	<u>4,401</u>	<u>(1,599)</u>
Total expenditures	<u>520,232</u>	<u>520,232</u>	<u>450,935</u>	<u>(69,297)</u>
Excess (deficiency) of revenues over expenditures	<u>(163,859)</u>	<u>(163,859)</u>	<u>(92,070)</u>	<u>71,789</u>
Other financing sources - transfers in	<u>800</u>	<u>800</u>	<u>880</u>	<u>80</u>
Net change in fund balance	(163,059)	(163,059)	(91,190)	71,869
Fund balance - beginning	<u>254,169</u>	<u>254,169</u>	<u>254,169</u>	<u>-</u>
Fund balance - ending	<u>\$ 91,110</u>	<u>\$ 91,110</u>	<u>\$ 162,979</u>	<u>\$ 71,869</u>

Lexington Township
Required Supplemental Information
Budgetary Comparison Schedule
Debt Service Fund
Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Charges for services	\$ 4,171	\$ 4,171	\$ 3,892	\$ (279)
Interest	8,348	8,348	10,511	2,163
Other revenue	<u>7,483</u>	<u>7,483</u>	<u>11,153</u>	<u>3,670</u>
Total revenues	<u>20,002</u>	<u>20,002</u>	<u>25,556</u>	<u>5,554</u>
Expenditures				
Debt service	<u>27,085</u>	<u>27,085</u>	<u>27,084</u>	<u>(1)</u>
Net change in fund balance	<u>(7,083)</u>	<u>(7,083)</u>	<u>(1,528)</u>	<u>5,555</u>
Fund balance - beginning	<u>140,566</u>	<u>140,566</u>	<u>140,566</u>	<u>-</u>
Fund balance - ending	<u>\$ 133,483</u>	<u>\$ 133,483</u>	<u>\$ 139,038</u>	<u>\$ 5,555</u>

Lexington Township
Other Supplemental Information
Schedule of Revenues Compared to Budget
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Taxes and penalties				
Property taxes	\$ 93,458	\$ 93,458	\$ 97,979	\$ 4,521
Administrative fee	30,000	30,000	34,321	4,321
Property tax interest	3,000	3,000	1,147	(1,853)
Trailer park tax	1,956	1,956	1,950	(6)
Total taxes	128,414	128,414	135,397	6,983
Intergovernmental				
State shared revenue	180,143	180,143	171,747	(8,396)
Charges for services				
Special assessments	11,091	11,091	12,437	1,346
Fees and permits	7,485	7,485	8,587	1,102
Fire and rescue runs	13,000	13,000	17,430	4,430
Weed cutting	2,000	2,000	2,360	360
Total charges for services	33,576	33,576	40,814	7,238
Interest	2,000	2,000	1,987	(13)
Other revenue				
Miscellaneous	2,850	2,850	4,822	1,972
Cable franchise fees	4,501	4,501	4,098	(403)
Metro authority maintenance	4,889	4,889	-	(4,889)
Total other revenue	12,240	12,240	8,920	(3,320)
Operating transfers in				
Other funds	800	800	880	80
Total revenues and operating transfers in	\$ 357,173	\$ 357,173	\$ 359,745	\$ 2,572

Lexington Township
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
General government				
Township board				
Salaries	\$ 4,768	\$ 4,768	\$ 4,768	\$ -
Fringe benefits	365	365	596	231
Pension	9,000	9,000	8,177	(823)
Office supplies	2,000	2,000	1,331	(669)
Membership and dues	5,100	5,100	2,478	(2,622)
Education and training	500	500	970	470
Recreation program	1,695	1,695	1,695	-
Economic development	2,584	2,584	2,584	-
Audit	4,000	4,000	10,450	6,450
Legal fees	7,000	7,000	13,930	6,930
Mileage	250	250	36	(214)
Telephone	2,600	2,600	2,255	(345)
Postage	7,500	7,500	5,165	(2,335)
Printing and publishing	500	500	1,285	785
Computer expense	1,500	1,500	861	(639)
Insurance	12,000	12,000	11,395	(605)
Office equipment and equipment maintenance	11,000	11,000	4,837	(6,163)
Miscellaneous	6,837	6,837	9,891	3,054
Tax tribunal and other refunds	2,500	2,500	162	(2,338)
Total township board	81,699	81,699	82,866	1,167

Lexington Township
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Supervisor				
Salaries	\$ 6,393	\$ 6,393	\$ 6,493	\$ 100
Fringe benefits	487	487	497	10
Office supplies	100	100	83	(17)
Membership and dues	150	150	-	(150)
Mileage	200	200	-	(200)
Miscellaneous	100	100	-	(100)
Education and training	100	100	356	256
Total supervisor	7,530	7,530	7,429	(101)
Clerk's staff				
Salaries	41,529	41,529	44,302	2,773
Fringe benefits	8,178	8,178	8,796	618
Office supplies	500	500	313	(187)
Membership and dues	400	400	185	(215)
Mileage	200	200	477	277
Printing and publishing	50	50	-	(50)
Miscellaneous	600	600	479	(121)
Total clerk's staff	51,457	51,457	54,552	3,095

Lexington Township
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Assessor				
Salaries	\$ 33,043	\$ 33,043	\$ 33,326	\$ 283
Fringe benefits	7,528	7,528	7,956	428
Office supplies	2,000	2,000	2,981	981
Membership and dues	750	750	75	(675)
Mileage	1,500	1,500	1,174	(326)
Data processing	5,000	5,000	239	(4,761)
Printing and publishing	250	250	241	(9)
Education and training	4,000	4,000	2,105	(1,895)
Reappraisal and related expense	74,300	74,300	69,575	(4,725)
Miscellaneous	1,050	1,050	129	(921)
Total assessor	129,421	129,421	117,801	(11,620)
Election				
Salaries	6,000	6,000	6,865	865
Office supplies	2,000	2,000	447	(1,553)
Education and training	1,000	1,000	224	(776)
Mileage	400	400	533	133
Printing and publishing	1,500	1,500	913	(587)
Miscellaneous	400	400	9	(391)
Total election	11,300	11,300	8,991	(2,309)

Lexington Township
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Treasurer				
Salaries	\$ 22,908	\$ 22,908	\$ 22,044	\$ (864)
Fringe benefits	6,051	6,051	4,844	(1,207)
Office supplies	500	500	417	(83)
Membership and dues	50	50	-	(50)
Mileage	300	300	362	62
Data processing	3,500	3,500	4,634	1,134
Printing and publishing	100	100	44	(56)
Education and training	800	800	1,269	469
Miscellaneous	550	550	95	(455)
Total treasurer	34,759	34,759	33,709	(1,050)
Zoning				
Salaries	14,503	14,503	11,637	(2,866)
Fringe benefits	1,110	1,110	890	(220)
Office supplies	100	100	45	(55)
Mileage	300	300	210	(90)
Printing and publishing	1,100	1,100	1,011	(89)
Education and training	1,000	1,000	205	(795)
Miscellaneous	2,300	2,300	1,656	(644)
Total zoning	20,413	20,413	15,654	(4,759)
Total general government	336,579	336,579	321,002	(15,577)

Lexington Township
Other Supplemental Information
Schedule of Expenditures Compared to Budget
General Fund
Year Ended June 30, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Public safety				
Ambulance	\$ 11,000	\$ 11,000	\$ 3,015	\$ (7,985)
Fire contracts	16,500	16,500	12,430	(4,070)
Fire and rescue runs	20,200	20,200	19,000	(1,200)
Cops road patrol	35,800	35,800	35,000	(800)
Total public safety	83,500	83,500	69,445	(14,055)
Highways and streets				
Salaries	850	850	1,093	243
Fringe benefits	66	66	84	18
Street lighting	2,500	2,500	2,618	118
Gravel and chloride	50,000	50,000	37,178	(12,822)
Road construction	5,000	5,000	1,704	(3,296)
Weed control and mowing	3,000	3,000	672	(2,328)
Bike path	2,500	2,500	2,500	-
Ditch improvements	20,000	20,000	-	(20,000)
Total highways and streets	83,916	83,916	45,849	(38,067)
Other expenditures				
Building maintenance	7,002	7,002	7,002	-
Lease payments	3,235	3,235	3,236	1
Total other expenditures	10,237	10,237	10,238	1
Capital outlay				
General government	6,000	6,000	4,401	(1,599)
Total expenditures	\$ 520,232	\$ 520,232	450,935	\$ (69,297)

October 11, 2005

To the Township Board
Lexington Township
Sanilac County, Michigan

In planning and performing our audit of the financial statements of the Township of Lexington for the year ended June 30, 2005, we considered the Township's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated October 11, 2005 on the financial statements of the Township of Lexington.

ACCOUNT RECEIVABLE

In reviewing accounts receivable for the year it was determined that no tracking is done of totals of fire and rescue runs and doing a year to year comparison. This would provide data for additional analysis and ascertain that all runs are being billed.

In preparing the accounts receivable listing for fire and rescue runs this year it became apparent that staff did not understand the concept of accruing receivables. Items that were billed for during the fiscal year, but paid after the fiscal year had ended were not included in the listing. These were still outstanding at June 30 2005 and accounting principles generally accepted in the United States of America requires these be accounted for in the fiscal year they are earned.

Additionally, the receivable from the prior year had not been relieved of any payments that had been accrued during the last fiscal year.

SPECIAL ASSESSMENTS AND CONNECTION AGREEMENTS

Considerable additional time was spent to assist staff in reconciling the various special assessments and connection agreements. We recommend that these be reconciled on at least a quarterly basis.

Also, the funds collected for these assessments and agreements had not been deposited to the proper bank accounts. These funds are restricted for debt service and required by statute to be deposited into the debt retirements funds. Some of the revenue from these collections had been posted as revenue in the general fund; some had been posted as due to other funds. In general there appears to be a real lack of understanding how these funds should be handled. A training session which includes staff involved with the collection and general ledger reporting functions should be held to ensure that this does not happen in the future.

TAX COLLECTIONS

In reviewing the tax collection system it was discovered that some of the taxing units had been overpaid. This left a balance to be collected for your general fund. We have analyzed the tax collections and booked an appropriate amount as due from other governmental units.

We believe this occurred because of the transition from one treasurer to another and the training process for the new treasurer not being as thorough as it might have been.

We strongly recommend that steps be taken to ascertain that this is not repeated in the future.

BANK RECONCILIATIONS

Bank reconciliations were not available when we arrived for the audit. No hard copy was prepared as staff had used the software to reconcile on a monthly basis. Further, the treasurer had not compared the bank reconciliation to the general ledger balances as posted by the clerk to determine that the official records of the Township were correct.

We recommend that this be done on a monthly basis.

ACCURACY OF ACCOUNT BALANCES

We noted during the audit that when disbursements are made and cash is received there were instances where the appropriate accrual was not relieved. The items were recorded as revenue or expense. It is our recommendation that management review the balance sheet on a monthly basis to assess the reasonableness of the account balances and make journal entries to correct them if necessary. Staff may need additional training to understand this process. This procedure will give the board more accurate financial information throughout the year.

It was also noted that the board does not receive a monthly financial statement. They receive an accounting of the cash and a list of the checks being presented for payment. At the least, a statement of revenue and expense compared to budget should be presented with the board packets each month. Now that funds are tighter than they have ever been it is important that the board see the possible budget pitfalls on a monthly basis. This will allow you to be proactive, rather than reactive to your financial situation.

We appreciate the opportunity to assist Lexington Township each year with their audit. We take pride in counting your Township as one of our clients. If there are questions or comments regarding the report or the contents of this letter please feel free to contact us.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants



Joel V. Chamberlain, Branch Manager